

**COUNTY ADMINISTRATOR**  
James O. McReynolds



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October 12, 2004

The Board of Supervisors  
County of York, Virginia

Dear Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report of the County of York for the fiscal year ended June 30, 2004, as required by the *Code of Virginia*. The Department of Financial and Management Services has prepared this report in accordance with accounting principles generally accepted in the United States of America (GAAP), the standards of financial reporting prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board and the Auditor of Public Accounts of the Commonwealth of Virginia. The independent certified public accounting firm of Cherry, Bekaert, & Holland, L.L.P., has audited the financial statements and their opinion is contained within this report.

Responsibility for both the accuracy of the presented data and the fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds of the County; and that all disclosures necessary to enable the reader to gain maximum understanding of the County's financial activity have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting, the government's organizational diagram and a list of principal officials. The financial section includes the report of independent auditors on the basic financial statements, management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The County government is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and US Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of Federal awards, findings and questioned costs, and auditors' reports on internal control and compliance with applicable laws and regulations are included in the financial section of this report.

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*A Hampton Roads Community*

The County, as a separate and distinct political entity, provides a wide range of municipal services as contemplated by statute. Major functions include general government services, judicial services, public safety, environmental and development services, finance and planning, education, human services, general services and community services. In addition, the County operates and maintains a solid waste disposal program and water and sewer utility systems service geographically dispersed areas of the jurisdiction.

The County has included in its financial statements two discretely presented component units. Discretely presented component units are entities that are legally separate from the County, but for which the County is financially accountable, or whose relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The component units are the York County School Board and the Industrial Development Authority of York County.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors on pages C-1 through C-12 of this report.

### **PROFILE OF THE GOVERNMENT**

The County is located in the Virginia coastal plain on the peninsula formed by the James and York Rivers and the Chesapeake Bay. The County has a land area of 108 square miles and is bounded by James City County and the cities of Poquoson, Hampton, Newport News and Williamsburg, and by the York River. The County land area is effectively split into two distinct sections by a large area of federal landholdings, including the Coast Guard Training Center, the Colonial National Historical Park, and the U.S. Naval Weapons Station. In addition, the U.S. Navy's Cheatham Annex, the U.S. Army's Camp Peary, and the U.S. Air Force's Bethel Manor Housing Complex (Langley Air Force Base) with its associated reservoir bring the total federal landholdings in the County to approximately 40%. There are no incorporated towns within the County. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Established in 1634, the County has played a role in the development of this nation in that it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The County is organized under the traditional form of government (as defined under Virginia Law). The governing body of the County, the Board of Supervisors, establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Administrator to act as the administrative head of the County.

The County provides a full range of services, including law enforcement and fire protection. The County also is financially accountable for the legally separate School Board and the legally separate Industrial Development Authority, both of which are reported separately as discretely presented component units within the County's financial statements. Additional information on each of these legally separate entities can be found in Note 1A in the notes to the financial statements.

The annual budget serves as the foundation for the County's financial planning and control. All departments and agencies of the County are required to submit requests for appropriation to the County Administrator on or before the third week of January of each year.

The County Administrator uses these requests as a starting point for developing a proposed budget for presentation to the Board of Supervisors for review the first week of March. The Board of Supervisors is required to hold public hearings on the proposed budget and to adopt a final budget by no later than May 1. The budget is prepared by fund and function (e.g. public safety). The County Administrator may make transfers of appropriations within a function. Transfers between functions require the prior approval of the Board of Supervisors. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages G-2 through G-5 as part of the required supplementary information other than management's discussion and analysis. For governmental funds, other than the general fund, with appropriated budgets, this comparison is presented in the other supplementary information subsection of this report, which starts on page H-2.

## **ECONOMIC CONDITION AND OUTLOOK**

York County continues to enjoy a relatively strong local economy. During the year, population grew to more than 62,300 and both the residential and commercial tax bases continued to expand. While growth has increased demand for government services, it has also provided additional resources. These additional resources, coupled with the existing financial base, and the conservative fiscal policy of the Board of Supervisors and County management, enabled the continued provision of the same high level of government service that has come to be expected of York County. As the debt levels, revenue base, and fiscal reserves and bond rating indicate, the County has a solid financial foundation.

## **MAJOR INITIATIVES**

During the formulation of the fiscal year 2004 budget, the Board of Supervisors directed that the governmental emphasis be focused on maintaining a high level of support for the operation and construction of the schools, public safety, corridor improvements/beautification, continued maintenance and extension of municipal water and sewer service, continued maintenance and upgrade of the County stormwater system and the capital improvements program of the County. Accordingly, this direction was translated into a number of specific projects to which major portions of the available resources were allocated.

### **Operations**

#### *Planning –*

The Comprehensive Plan, titled *Charting the Course to 2015*, provides a long-range plan for the physical development of the County. The current plan was adopted in 1999 after an extensive review process involving citizens and civic and business groups, the Planning Commission and the Board of Supervisors. State law requires that a locality's comprehensive plan be review every five years and in fiscal year 2004 the process that will lead to adoption of the next edition of the County's plan, *Charting the Course to 2025*, was initiated.

The goals and initiatives discussed in the current plan, and likely to carry over into the updated version, include encouraging quality commercial growth, supporting of the County's School division, purchasing conservation easements and environmentally sensitive lands, developing new recreational facilities, beautifying major entrances and commercial corridors including placing existing overhead utilities underground, construction of bicycle and pedestrian improvements leveraged with local funding, continued modernization and improvement of the County's emergency response and management capabilities and upgrading the technology available to County students and citizens. The target date for adopting the updated plan is September 2005.

#### *Communications System Upgrade Project -*

The Communications Systems Upgrade Project includes a complete upgrade of the County's Computer Aided Dispatch (CAD) system and a regional 800 MHz public safety/public service trunked radio system that will allow for both digital and analog operation. The project includes the replacement of all mobile radio units of County Departments and Schools, the addition of mobile data terminals in the Sheriff and Fire and Life Safety vehicles, the upgrade of emergency communication equipment in the E-911 Center and an addition to the Public Safety Building to house the E-911 Center. The project is scheduled for completion during fiscal year 2005.

### **Economic Development**

The York County Office of Economic Development (OED) and the Industrial Development Authority (IDA) have had an active and highly successful year in 2004. The two have worked together to promote the economic growth of the County, by attracting new developments to the Lightfoot Corridor as well as to the Kiln Creek area. Overall, the projects in 2004 reflect the County's growing hospitality and retail sectors, as well as the County's desire to attract companies in the finance, insurance, and real estate sectors.

The highlight of 2004 was the Great Wolf Lodge, which represents a \$48 million investment. The Lodge, which plans to open in Spring 2005, will feature 301 family-sized suites, a 55,000 square foot indoor water park, a 250 seat restaurant, a 7,000 square foot arcade, 7,000 square feet of meeting space, an Aveda® Concept Spa, and much more. This unique destination is expected to help boost the entire Williamsburg area, especially during the winter months. In addition to the Great Wolf Lodge, the Lightfoot Corridor has also attracted Williamsburg Motors, a \$3.5 million investment that opened in April 2004; Home Depot, a \$10 million+ investment that will open in November 2004; and Ukrops, which plans to open a 52,000 square foot store by the end of 2006. Ukrops and Home Depot are part of the Williamsburg Marketcenter, a 335,000 square foot development, which will include two more anchor tenants, whose identities will be announced soon, and plenty of additional retail space available for lease upon completion.

The Kiln Creek area has seen considerable growth in 2004 with the addition of the 1<sup>st</sup> Advantage Federal Credit Union headquarters and a Texas Roadhouse restaurant. The credit union, a 50,000 square foot brick and glass class A office building, is a wonderful addition to the commercial area, and will help upgrade the County's building inventory.

Other new businesses for 2004 include: Liguria Retail Center, Consolidated Wings and Presidents Park. Riverwalk Landing has come alive in 2004 and is on track for the Spring 2005 grand opening. Leasing interest in the ten retail spaces has increased greatly as the buildings begin to take shape. In addition to the anchor tenant "Nick's Riverwalk Restaurant," space has also been leased to Vicellio Goldsmith, Starts and Stripes, and Cottage on the York. Plans are being finalized for an ice cream and coffee shop.

## **Capital Improvements Program**

The County's six-year capital improvements program indicates that a major emphasis will continue to be placed on expansion of water and sewer facilities, school facilities, maintenance of buildings and improvement of stormwater facilities. Growth in the County's population is projected to continue an upward trend. Along with this growth, the County can anticipate an increased demand for government services.

### *Park Land Acquisition and Design –*

The County is developing additional amenities at New Quarter Park. In addition, the County is working to secure a site for an athletic field complex and is conducting the conceptual master planning and necessary site studies, along with the development of construction drawings to address the shortage of athletic fields.

### *Stormwater Maintenance Program –*

The stormwater maintenance program continues to address ongoing drainage maintenance within County easements. For fiscal year 2004, the stormwater capital improvements program included the areas of Brandywine, Moore's Creek, Foxwood-Darby Firby, Homestead and Tabb Lakes. Fiscal year 2005 projects include the areas of Edgehill/Fort Eustis and continued work at the above projects.

### *Yorktown Capital Improvements –*

The County is committed to the revitalization of the Riverfront area in Historic Yorktown and other highly visible sections of Yorktown. In October 2000, the Board of Supervisors adopted the fiscal year 2001-2007 Yorktown capital improvements program as a long range planning document.

The revitalization of Yorktown includes the improvement plan for the waterfront area. The revitalization efforts will include the construction of a new 9,000 square foot waterfront restaurant and 10,000 to 12,000 square feet of retail space. The commercial development will be supported by a new 250 car-parking terrace. Two piers will be constructed capable of docking dinner cruise boats, passenger cruise lines, tall-ships and recreational boats. The commercial development will also be part of a riverwalk project that will connect the new commercial waterfront area with the National Park Service's "Information Center," the Watermen's Museum and the Commonwealth of Virginia's "Victory Center" Museum.

Other projects within the Yorktown Capital Improvements Program include the following:

- Utility Undergrounding – to improve aesthetics by placing existing overhead utilities underground in other highly visible areas in Historic Yorktown.
- Streets, Walkways and Drainage – to improve drainage, enhance existing or add new walkways, improve street surfaces, enhance pedestrian lighting and improve signage.
- Shoreline Stabilization – to stop or minimize the loss of sand from the Yorktown shoreline and to protect the shoreline from the damaging storms.

### *Water and Sewer Projects*

A schedule of major water and sewer construction projects in the County's Capital Improvements Program is below.

<u>Project</u>	<u>Type</u>	<u>Target Completion Date</u>	<u>Properties</u>
Skimino Hills	Sewer	FY2006	165
Marlbank Area	Sewer	FY2006	197
Old Wormley Creek Road	Sewer	FY2008	100
York Point	Sewer	FY2008	192
Darby/Firby Area	Sewer	FY2009	43
Falcon/Loblolly Drive	Sewer	FY2009	116
Hornsbyville Road	Sewer	FY2010	69
Old Quaker Estates	Water	FY2009	112
Queens Lake	Water & Sewer	FY2009	497
Carver Gardens	Water	FY2011	110

The County issued revenue bonds on December 1, 1999 for \$9.4 million to support the Utilities Strategic Capital Plan relating to sewer projects. These bonds will be repaid from the Sewer Utility Fund's revenues.

### **Schools**

#### *Queens Lake Middle School Renovations/Additions -*

The scope of this project included replacement of the roof, HVAC and mechanical system, lighting, floor and ceiling. An additional eight new classrooms were included in the construction. The media center and school administrative area were also renovated.

#### *York High School Renovations -*

The design work for a major renovation of York High School will be completed in fiscal year 2005. Construction will begin in fiscal year 2006 to include HVAC, lighting, floor, ceiling, and approximately 36,000 square feet of roof replacement. Temporary mobile units will be used as classrooms during the construction.

### **Regional and Joint Cooperation**

#### *Regional Jail -*

Along with James City County and the Cities of Williamsburg and Poquoson, the County is a member of the Virginia Peninsula Regional Jail Authority. The Authority was created in 1993 for the purpose of constructing and operating a single jail for the participating localities. The project was developed to relieve the severely overcrowded conditions at existing facilities in the County and other jurisdictions. With the opening of this facility in June 1997, the County-owned facility was demolished and converted to additional parking for activities in the Yorktown historic area.

#### *Juvenile Jail Facility -*

A regional coalition was created involving 16 counties and 2 cities, of which the County is a voting member, to secure a juvenile detention facility. A 48-bed facility was opened in December 1997 to meet the demand for secure juvenile detention placements among the member jurisdictions.

### *Other Projects -*

The County will continue to participate in a number of entities intended to address regional activities such as transportation, economic development and planning. The number of studies and planning projects done regionally will likely increase over time as localities within Hampton Roads recognize their shared future. The design and procurement of the Communications System Upgrade project is a joint venture with James City County.

## **FINANCIAL INFORMATION**

The County's accounting records for general governmental operations are maintained on the modified accrual basis. This essentially involves the recording of revenues when they become measurable and available and the recording of expenditures when the goods and/or services are received or related fund liability is incurred. Accounting records for the County's enterprise (utility systems) and internal service (motor vehicle pool) funds are maintained on the accrual basis.

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are a system of methods, practices and procedures designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived therefrom; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal accounting control evaluations occur within the above framework. We believe that the County's system of internal accounting control adequately safeguards assets and provides reasonable assurance for the proper recording of financial transactions. Budgetary controls are maintained to ensure compliance with the budget approved by the Board of Supervisors. The approved budget is used as a tool to monitor general government expenditures within the limits adopted by the Board. Encumbrances are used to reserve a portion of the applicable appropriation for purchase orders, contracts and commitments of the County. Open encumbrances are reported as reservations of fund balances at year-end.

## **CASH MANAGEMENT**

The County Treasurer, through daily activity with several local banking institutions, carries out an aggressive cash management program. Temporarily idle funds are invested promptly in repurchase agreements and other instruments that are secured or collateralized by government securities as required by the *Code of Virginia*. Income from this cash management program was in excess of \$621,359 for fiscal year 2004.

## **RISK MANAGEMENT**

During fiscal year 2004, the County continued its long-standing practice of maintaining third party coverage for basic property, casualty, and liability risk. To enhance the attractiveness of the County in the competitive bid process for this coverage, continued attention is given to loss management. Through the use of appropriate deductibles and the services of a professional risk management consultant, costs associated with this risk management program have been stabilized at an acceptably low level.

The County and the School Division have contracted with a third party to administer a high-deductible workers' compensation program with risk of up to \$200,000 for each occurrence subject to a \$600,000 annual aggregate on the combined claims.

### **INDEPENDENT AUDIT**

The *Code of Virginia* and the Commonwealth's Auditor of Public Accounts require an annual audit of the books of account, financial records and the transactions of all administrative departments, agencies and activities of the County by an independent certified public accountant selected by the Board of Supervisors. This requirement has been complied with and the report of independent auditors has been included in the financial section of this report.

In addition to meeting the requirements set forth in State statutes and regulations, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The reports of independent auditors, which relate specifically to the single audit, are also included in the financial section of this report.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of York, Virginia for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the 18<sup>th</sup> consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGMENTS**

The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Department of Financial and Management Services, especially the Division of Budget and Financial Reporting, the Office of the Treasurer, the School Division and the York/Poquoson Department of Social Services. I would like to express my appreciation to all of the members of these staffs who assisted and contributed to its preparation. I would also like to thank the members of the Board of Supervisors who, both individually and collectively, provided the guidance and support essential to the conduct of the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

James O. McReynolds  
County Administrator

Marycarol C. White, Director  
Financial and Management Services